Orion Petroleum Ltd.
1980 Annual Report

The South Louisiana Production Company Number One McCollister well, Irene Field, East Baton Rouge Parish, Louisiana. This well tested at 9.8 million cubic feet of gas per day plus 290 barrels of condensate.

ORION PETROLEUM LTD., formed in 1979, is an oil and gas exploration company which funds its activities primarily through limited partnerships and joint ventures.

Orion is actively engaged with working interests or royalty interests in a variety of prospects in the Tuscaloosa Trend of Louisiana, in Oklahoma, and in East Texas. In 1980, the company participated in eight discoveries.

Orion's exploration budget for 1981 is currently $12 million (U.S.).

Cover

The cover of the report is derived from a computerized infrared photograph of southern Louisiana taken by satellite. The photo includes major areas of Orion's exploration activities in the Tuscaloosa Trend (see maps in Operations section).

Highlights

July 1980: The Amoco Number One Hess well was completed as a major Tuscaloosa discovery. Orion Royalty Fund holds a significant royalty interest in this prospect.

September 1980: A private placement of 800,000 common shares netted Orion $1.6 million (Canadian).

October 1980: Orion shares were listed for trading on the Alberta Stock Exchange.

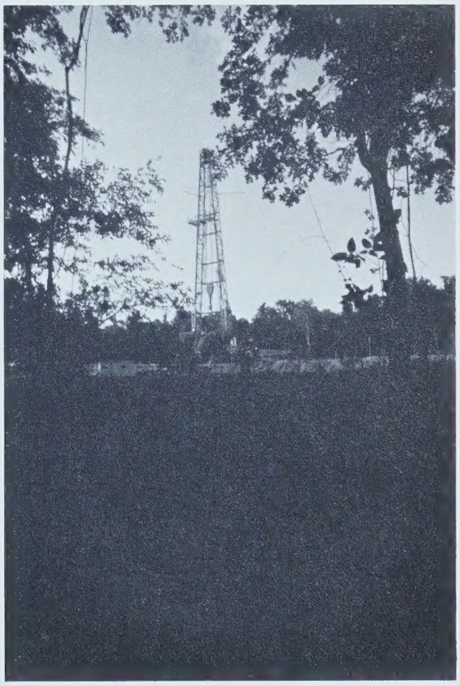
December 1980: Orion concluded joint venture royalty and drilling agreements with newly formed British American Resources totaling $3.3 million (U.S.) each.

Private placement of 215,000 common shares netted Orion $900,000(Canadian).

January 1981: The Amoco Number One Calicott well set pipe at a total depth in excess of 21,000 feet prior to completion attempt. Orion Royalty Fund holds interest under the well site and possible offsets.

February 1981: Orion 1981 Royalty Fund closed at $3.6 million (U.S.).

April 1981: The South Louisiana Production Company Number One Mead well is tested at 7.1 million cubic feet of gas per day and 273 barrels of condensate. Orion Royalty Fund holds 17 royalty acres in the unit for this well.


Amoco Number One Calicott

Contents

To Our Shareholders:

The past year was Orion Petroleum's first full year of operations as an oil and gas exploration company. As expected, it is premature for production revenues to build to the point of earnings from operations. However, we are pleased to report that exploration activities have already shown remarkable progress and success.

The Orion Royalty Fund, Ltd. (a royalty fund organized and managed by the company), closed in February 1980 at $3.76 million (U.S.). During the past year, the fund participated in eight commercial wells, for an overall drilling success ratio of 38 percent. In addition, two wildcats have successfully logged sands and await testing.

As of the end of the current year's first quarter, there were 24 active or proposed wells on or offsetting the fund's royalty interest acreage.

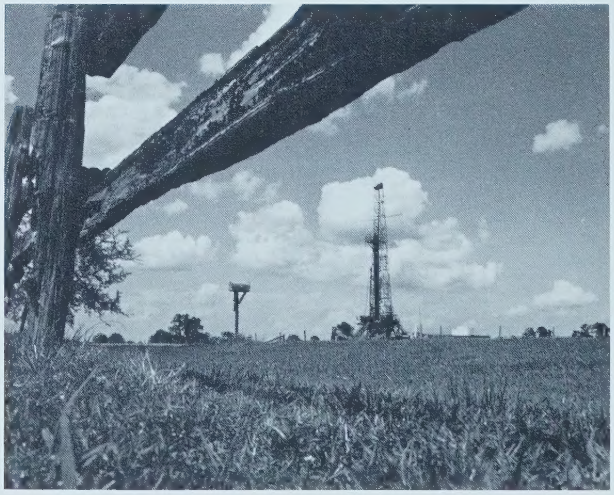
Progress is also being made by the company's $1.75 million (U.S.) Oklahoma joint venture. To date, two drilling prospects have been assembled, and agreements have been reached with industry partners to drill these prospects.

The year was equally active with respect to corporate development. Orion expanded its equity base through two private placements (totaling 1,015,000 shares) of its common stock, a significant portion of which was placed with institutions, principally in the United Kingdom. Proceeds from the offerings were $2.7 million (Canadian). At December 31, Orion had net working capital of $3,237,000 (Canadian) in comparison with $537,000 a year earlier, and no debt.

In October, the company's shares were listed on The Alberta Stock Exchange, thus providing a more visible and orderly market for our shares.

In the vital area of personnel, the company was able to attract a number of experienced professionals to its staff. Joining us in the past year were Phillip K. Roberts, exploration manager; Thomas W. Welch, controller; and Curtis Regan, senior landman.

As we look to 1981, we recognize our industry is not without problems. Competition for good prospects has substantially increased acreage prices and terms for farmout transactions. Nevertheless, we view the U.S. oil and gas industry as one of exceptional opportunity. Removal of crude oil price controls in 1981 indicates the new Washington administration's willingness to make the difficult but necessary



Amoco Number One Hess

decisions to achieve the United States' energy goals. U.S. wellhead crude oil prices now approach $37 per barrel which, despite the windfall profits tax, provides adequate incentive for exploration ventures.

Natural gas prices also continue to escalate, and there are indications the new administration will further liberalize gas prices prior to scheduled decontrol in 1985 under the Natural Gas Policy Act. Orion's royalty and mineral programs are directed toward gas below 15,000 feet where prices are already decontrolled.

The company's 1981 exploration budget currently stands at $12 million (U.S.). These funds were obtained by formation of three joint ventures and through a limited partnership. Of this amount, approximately $6.9 million will be expended for royalty and mineral acreage, and $5.1 million is budgeted for exploration and drilling. We are actively pursuing other joint ventures and funds which would increase our exploration exposure.

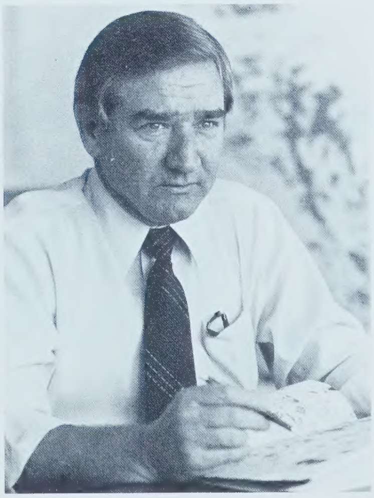
In this report of our first year, we believe it is appropriate to review the goals and objectives of the company. Our primary long-term goal is to build a highly-qualified technical staff which will internally generate promising exploration prospects. These we will explore through a combination of outside ventures and company funds. We are aggressive in approach, and though substantial progress has been made in our brief operating history, we look for much greater growth in the years ahead.

Sincerely,

Peter R. Vig
Chairman and Chief Executive Officer

Jack L. Woods
President and Chief Operating Officer

Peter R. Vig



Jack L. Woods

An Interview with the Chairman and President

Q: What is the philosophy behind Orion's exploration drilling venture?

A: Similar to that of the royalty fund in that our first consideration is risk diversification. We plan for the 1981 drilling venture to participate in approximately 30 prospects. Another objective is to avoid the risk of cost overruns that a working interest owner is subject to in deep, high-pressure wells by participating primarily in shallow to medium-depth prospects.

Q: In what areas will the 1981 drilling venture be participating?

A: We will participate in shallow to medium-depth wells, primarily with oil potential in the shelf area of north central Oklahoma, north Texas and southern Oklahoma, the Illinois Basin, and parts of the Louisiana/Texas Gulf Coast.

Q: Which of the discoveries in the 1980 Royalty Fund have the most potential?

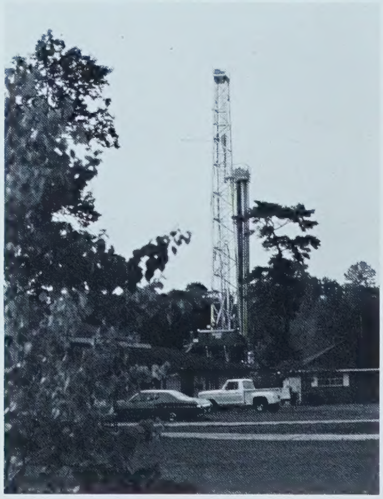
A: Given the pay thickness and the level of our exposure, the Morganza Field is by far the most important. Second would be the Irene Field, where we participated in two successful wells, one of which is on stream, and have meaningful interest in two other wells which are either preparing to test or are drilling. Third would be the South Ravenswood Prospect. The initial well on this prospect reported potentially productive sands; however, very high pressures necessitated ordering a special string of pipe and this has delayed testing of the well. The Royalty Fund has a significant position located both under and in close proximity to the well.

In the longer term, we have a significant potential in our 1,051 net royalty acres in the Sheridan — West Sheridan Cotton Valley play in Washington Parish, Louisiana. The operator in this area is currently drilling a 23,000 foot Cotton Valley test directly offsetting the southeastern flank of our royalty acreage. In each of our royalty ventures, we prefer to have at least one project like the Sheridan venture, which has significant potential yet entails only a modest financial risk. In this case, we exposed less than three percent of the Royalty Fund.

Q: Many people are confused as to what makes up a royalty acre. Could you elaborate?

A: Traditionally, when a landowner leases land to an oil company he retains a one-eighth royalty interest, with the oil company acquiring a seven-eighths interest. The definition of a royalty acre is a one-eighth (or 12½ percent) interest in one acre. Instead of acquiring one eighth interests, the Royalty Fund typically acquires one to three percent under a spread of acres, which is then converted to the appropriate number of royalty acres. For example, a three percent royalty interest in 100 acres equates to 24 net royalty acres under 100 gross surface acres: ($8 \times 100 \times .03 = 24$).

Q&A



Amoco Number One M.W. Miley

Q: How much of the 1981 royalty venture's $7 million will be allocated to the Tuscaloosa Trend?

A: We presently plan to spend approximately 50 percent of the fund in the Tuscaloosa. The remainder will be equally divided between the Anadarko Basin of Oklahoma and the Texas Panhandle, and the Hosston Gas Play in central Mississippi. Both are somewhat analogous to the Tuscaloosa Trend in that they are deep, decontrolled gas plays.

Q: What has been the trend in decontrolled gas prices?

A: A year ago, the price was around $5.00 per MCF. This quickly escalated to the $6.00 level, and with the recent decontrol of crude oil prices in the U.S., combined with OPEC price increases at year end, some recent contracts have been written in the $7.00 to $8.00 per MCF range.

Q: Orion recently acquired some "trend" acreage. Could you expand on your leasing program?

A: The company assembled approximately 10,000 acres based on regional geology in four counties in East Texas. A portion of this has been sold to a major oil company, with Orion retaining an override as well as a significant working interest. Since acquiring this acreage, we have had several requests from major companies and large independents to conduct seismic operations on it. We would like to expand our undeveloped acreage position.

Q: Does the Canadian government's announced national energy program affect Orion?

A: Since Orion concentrates its exploration efforts in the United States, there will be no negative impact. To the extent that the program is causing other Canadian companies to expand or initiate U.S. operations, it could be positive for Orion in that it creates opportunities for joint ventures with those companies.

Q: What is the makeup of Orion's ownership?

A: Approximately 40 percent of the Company's 5.6 million fully diluted shares are held by officers, directors and other insiders. Of the remainder, another 25 percent is held by institutions, and the balance by individuals.

Q: Is there a plan to bring the stock to the U.S.?

A: We are considering an NASDAQ listing for the stock later this year.

Q: What are Orion's greatest strengths and opportunities?

A: Our greatest strengths are our size and our people. As a small company, we can attract and motivate highly qualified individuals. Also, we can move very rapidly as opportunities occur. Over the near term, excluding possible additional ventures, Orion will be exposed to $12 million in exploration spending in 1981, which is a significant amount for a company our size.

Orion's management team originated several promising exploration prospects in the past year.

Review of Operations

Orion Royalty Fund

The 1980 Orion Royalty Fund successfully acquired 3,360 net royalty and lease acres under a total of 74,052 gross acres. Areas of interest include the Deep Tuscaloosa Trend of Central Louisiana, the Hosston-Cotton Valley play in southeast Louisiana, the Williston Basin and the Florida Penninsula. To date, 21 wells have been drilled and tested, of which eight were commercial producers and 13 were dry or marginally economic, for an overall success ratio of 38 percent. In addition to these wells, nine have been cased for tests, all located in the Tuscaloosa Trend, and there are 13 additional wells either proposed or actively drilling on royalty fund prospects. Highlights include the following:

Morganza Field, Pointe Coupee, Louisiana

The Amoco Number One Hess well was completed as the discovery well for the Morganza Field, with an announced test rate of 14 million cubic feet of gas per day and 123 barrels per day of condensate. This well indicates 165 feet of net pay, making it one of the largest discoveries in the Tuscaloosa Trend. Amoco is currently drilling two stepout wells, the Number One Ravenswood B, and the Number One Dorothy Brown. In addition, Amarex is drilling the Number One Barton well as a north offset to the discovery well. As indicated by the map, Orion Royalty Fund holds a total of 90 royalty acres in this prospect, including eight acres in the discovery well. The operator has made no announcement on either the Ravenswood B or Dorothy Brown wells, but we are very optimistic about the prospects for both.

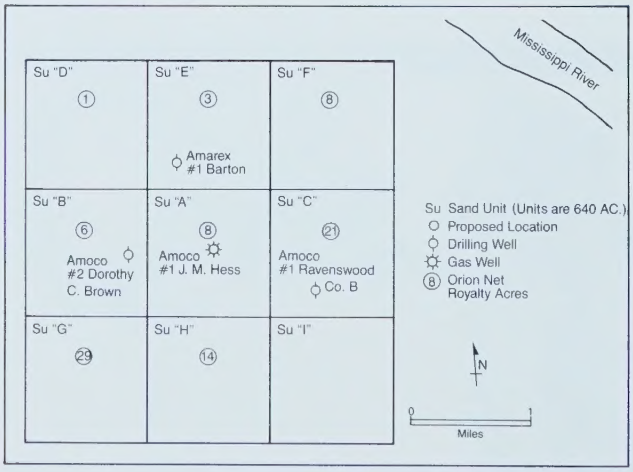
South Ravenswood, Pointe Coupee Parish, Louisiana

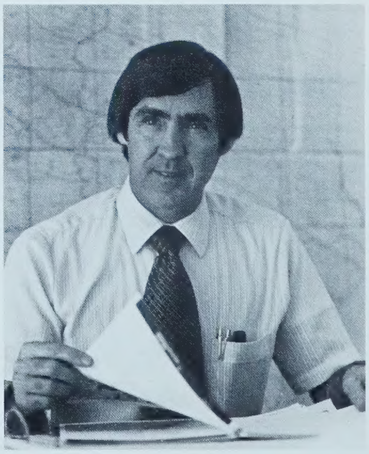
After drilling to a total depth of 21,334 feet, Amoco set pipe on the Number One Calicott well prior to conducting production tests. The Royalty Fund owns 79 net royalty acres in this prospect under 2,174 surface acres, including the well site. Extremely high pressures necessitated ordering a special string of casing prior to testing the well.

Irene Field, East Baton Rouge Parish, Louisiana

The Royalty Fund participated in three wells in this field, one of which — the South Louisiana Production Company Number One McCollister — tested at 9.8 million cubic feet of gas per day plus 290 barrels of condensate. In addition, the Number One Mead, where the Royalty Fund holds 17 royalty acres, has recently tested at a rate of 7.1 million cubic feet of gas per day and 273 barrels of condensate. Five other wells are active in the field, the most significant of these to the Royalty Fund (as indicated on the map) are the Number One Netter and the Number One State Lease 6890.

MORGANZA FIELD Pointe Coupee Ph, LA





P. K. Roberts
Exploration Manager

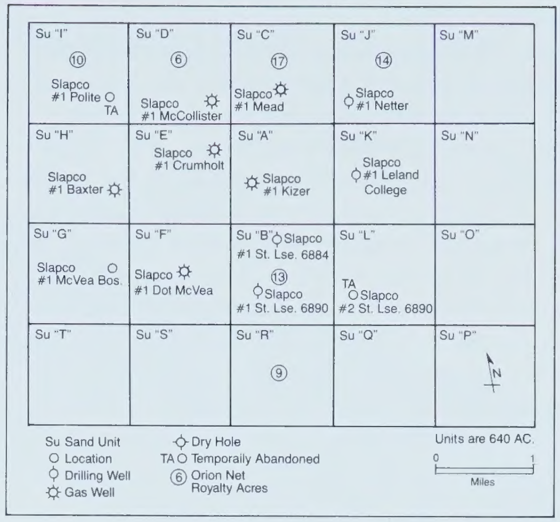
Lockhart Crossing Field, Livingston Parish, Louisiana

This field was discovered in late 1979 by Amoco with the Number One Barnett Heirs well, which tested at 8.4 million cubic feet of gas per day and 800 barrels of condensate. Currently there are six wells either active or planned in the field. The Royalty Fund owns 49 net royalty acres in this prospect, including a small interest in the Number One Barnett discovery. Production from this field is scheduled to go on stream this spring.

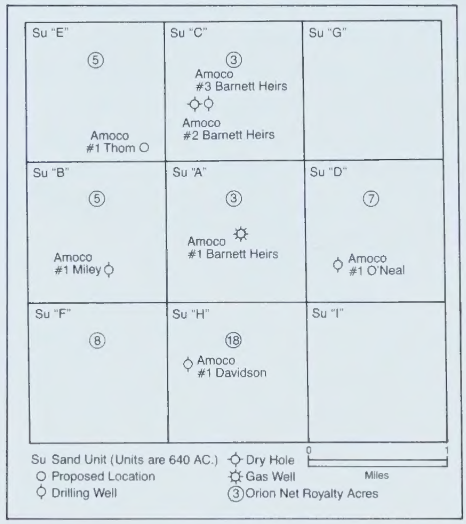
Sheridan — West Sheridan, Washington Parish, Louisiana

The Royalty Fund holds a total of 1,051 net royalty acres under 20,319 surface acres in the Sheridan — West Sheridan area, approximately one-third to one-half of which is interpreted as being on the northwest flank of the Sheridan structure. Louisiana Land & Exploration, as operator, now has three active wells approximately four to five miles south and east of the fund's holdings. More significant to the fund, Louisiana Land is drilling the Number Six Crown Zellerbach well as a 23,000 foot Cotton Valley test. This location is a direct offset to our holdings. The original discovery for the Sheridan area, the Number One Crown Zellerbach, initially produced gas but was abandoned due to mechanical problems.

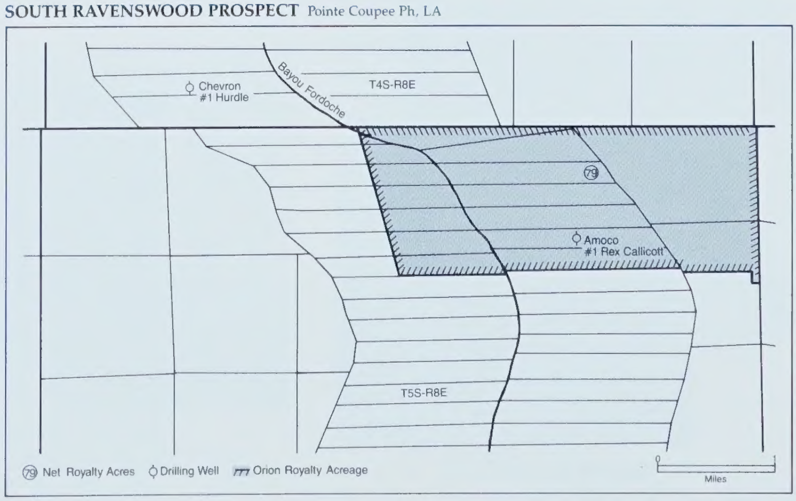
Portion of **IRENE FIELD** East Baton Rouge Ph, LA



Portion of **LOCKHART CROSSING FIELD** Livingston Ph, LA



SOUTH RAVENSWOOD PROSPECT Pointe Coupee Ph, LA



Michael D. Young
Vice President and Secretary

Joint Venture Exploration Office — Oklahoma City

Our Oklahoma joint venture generated and assembled two prospects during the course of 1980. Orion's interest in both prospects has been turned to industry partners, with Orion retaining a carried interest as well as the ability to participate in subsequent drilling. The Choctaw Prospect, located in Oklahoma County, is a re-entry of an old well to test the Mizner sand below 5,900 feet. The North Thunderbird Prospect, located in Cleveland County, calls for a 7,300-foot test with the main objectives the Wilcox and the Oil Creek formations. Work continues on the generation of other prospects.

Pawnee County Project

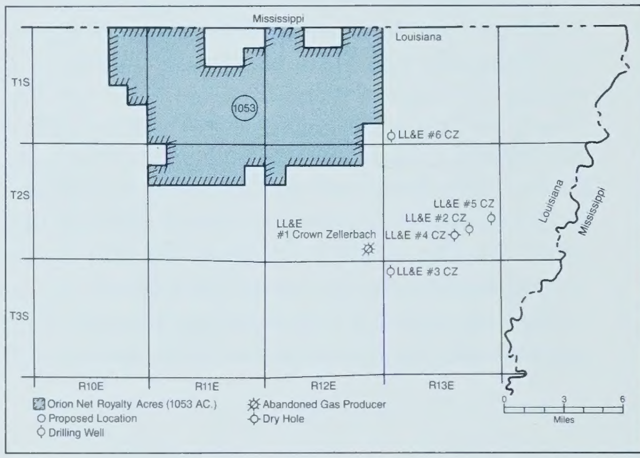
In Pawnee County, Oklahoma, Orion entered into an agreement whereby it would earn a one-eighth interest in 18,646 lease acres or 2,330 acres net to the company's account. Orion must either participate in drilling or cause to be drilled nine prospects in order to earn this interest. To date, six dry holes have been drilled with three prospects remaining to be drilled. The company intends to participate in the remaining three wells in 1981.

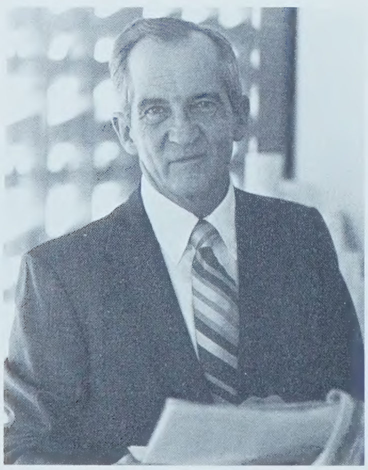
Acreage Acquisitions

In the third quarter of 1980, Orion assembled 5,840 acres in Delta, Lamar and Red River Counties in East Texas. This is primarily trend acreage considered prospective for Smackover production. Orion subsequently sold an undivided 65% interest in this acreage to a major oil company, retaining an override and a 35% working interest equal to 2,044 net lease acres. In the second phase of this East Texas project, the company recently assembled 4,999 net lease acres located in Red River, Bowie and Delta Counties. It is our intention to sell off a portion of this acreage.

The company plans to pursue other acreage acquisition programs in 1981, including possible joint ventures with outside partners.

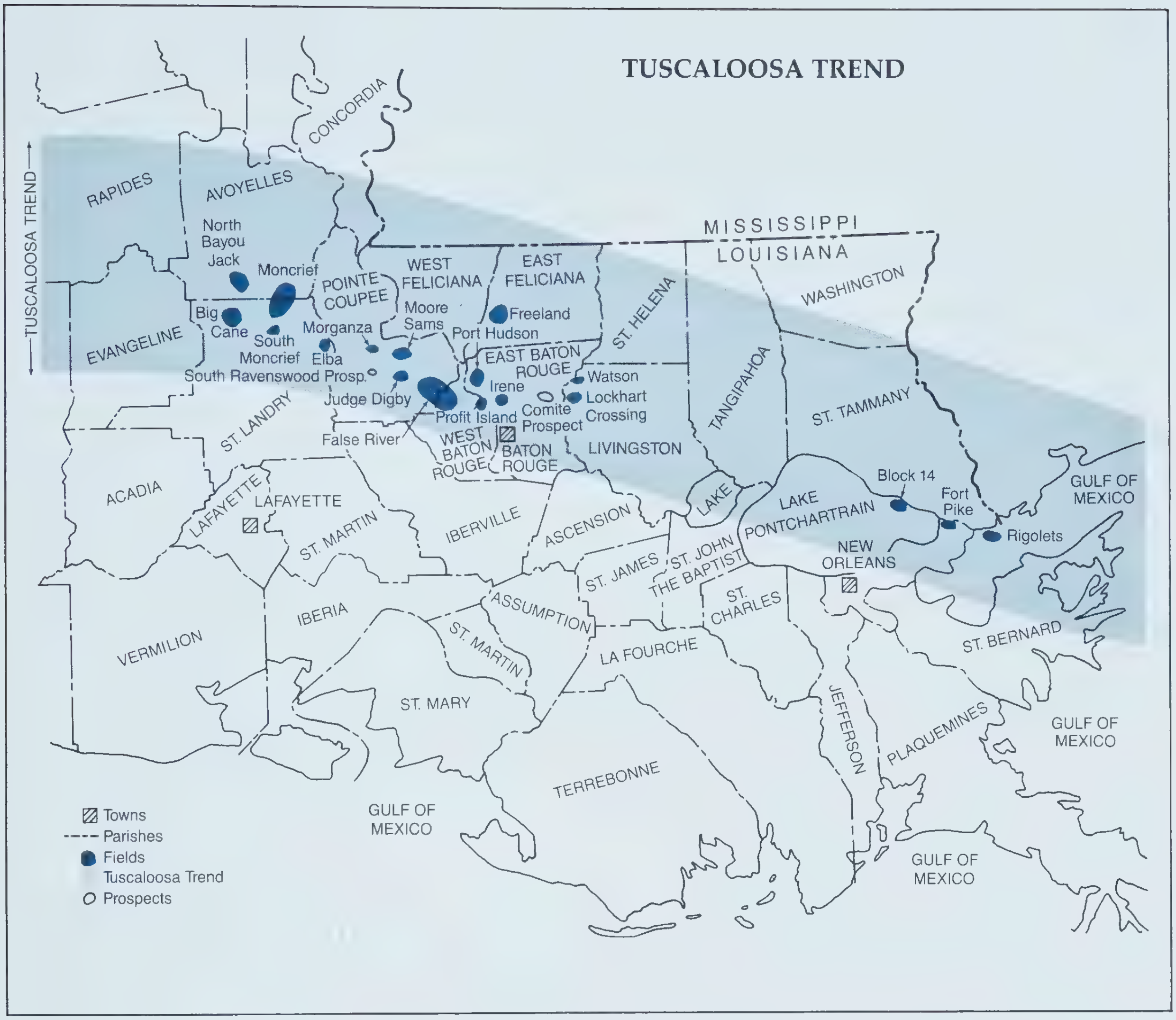
SHERIDAN PROSPECT Washington Ph, LA

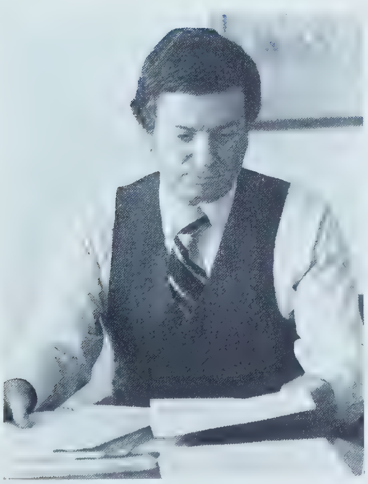




Curtis R. Regan, Jr.
Senior Landman

Becky Anselmo
Lease Records Analyst





Thomas W. Welch
Controller and Assistant Secretary

Janet Samford
Exploration Department Secretary

Melanie Bolin
Executive Secretary

ORION PETROLEUM LTD.

Consolidated Balance Sheet

December 31, 1980
with comparative figures for 1979

Assets

	1980	1979
Current assets:		
Cash and short-term deposits	**$3,156,324**	576,579
Accounts receivable:		
Affiliates (note 3)	**94,200**	3,935
Directors (note 3)	**175,000**	—
Other	**19,997**	—
	289,197	3,935
Prepaid expenses	**10,515**	7,252
Total current assets	**3,456,036**	587,766
Investments (note 4)	—	496,498
Oil and gas properties	**554,342**	—
Furniture and equipment, net of accumulated depreciation of $8,346 (1979 — nil)	**39,652**	47,649
Other assets	**20,597**	—
	$4,070,627	1,131,913

Liabilities and Shareholders' Equity

	1980	1979
Current liabilities:		
Accounts payable and accrued liabilities	**$ 164,348**	50,576
Deferred management fees (note 3)	**54,354**	—
Total current liabilities	**218,702**	50,576
Shareholders' equity:		
Capital stock (note 5):		
Common shares	**3,506,398**	2,246,898
Preferred shares	**905,000**	—
	4,411,398	2,246,898
Contributed surplus (note 5)	—	161,309
Deficit	**(559,473)**	(1,326,870)
Total shareholders' equity	**3,851,925**	1,081,337
	$4,070,627	1,131,913

See accompanying notes to consolidated financial statements.

ORION PETROLEUM LTD.

Consolidated Statement of Loss and Deficit

Year ended December 31, 1980
with comparative figures for 1979

	1980	1979
Revenue:		
Management fees (note 3)	$ 292,232	—
Interest income	189,084	36,509
Other	39,278	—
	520,594	36,509
General and administrative expenses	682,997	208,987
Loss from continuing operations	162,403	172,478
Loss (income) from discontinued operations	—	(45,697)
Loss before extraordinary item	162,403	126,781
Loss (gain) on disposal of investments (note 4)	192,135	(135,225)
Net loss (income) for the year	354,538	(8,444)
Deficit, beginning of year	1,326,870	1,335,314
Reduction in stated value of common shares (note 5)	(1,330,000)	—
Share issue costs (note 5)	119,440	—
Dividends on preferred shares	88,625	—
Deficit, end of year	$ 559,473	1,326,870
Loss per common share:		
Before extraordinary item	$ 0.08	0.07
After extraordinary item	$ 0.18	nil

See accompanying notes to consolidated financial statements.

ORION PETROLEUM LTD.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1980
with comparative figures for 1979

	1980	1979
Funds provided:		
Issue of common shares	**$2,787,500**	108,000
Issue of preferred shares	**1,000,000**	—
Issue of warrants	**7,000**	—
Proceeds of sale of investment in Westgrowth Petroleum Ltd.	**—**	793,730
Management fees and interest and advances repaid by Almark Resources Ltd.	**—**	254,219
Other	**4,363**	913
Total funds provided	**3,798,863**	1,156,862
Funds used:		
In operations:		
Net loss before extraordinary item	**162,403**	126,781
(Less) add items not affecting working capital	**(14,919)**	45,697
Funds used in operations	**147,484**	172,478
Purchase of oil and gas properties	**554,342**	—
Share issue costs	**280,749**	—
Dividends on preferred shares	**88,625**	—
Purchase of furniture and equipment and other assets	**27,519**	47,649
Acquisition of minority interest in Almark Resources Ltd.	**—**	108,000
Retirement of long-term debt	**—**	25,000
Total funds used	**1,098,719**	353,127
Increase in working capital	**2,700,144**	803,735
Working capital (deficiency), beginning of year	**537,190**	(266,545)
Working capital, end of year	**$3,237,334**	537,190

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1980

1. The company:

During the year the company changed its name from Orion Petroleums Company Ltd. to Orion Petroleum Ltd.

The company is subject to the provisions of the Canada Business Corporations Act. Through its wholly-owned subsidiary, Orion Petroleum, Inc., a company incorporated under the laws of the State of Texas, it is engaged in the business of acquiring and developing oil and gas properties and managing affiliated partnerships and joint ventures engaged in the business of acquiring and developing oil and gas properties. All properties are located in the United States.

As of December 31, 1980, production had not commenced on any of the properties owned directly by the company or on any of the properties owned by affiliate entities.

2. Summary of significant accounting policies:

The accounting policies of the company conform with accounting principles generally accepted in Canada. The significant policies of the company and its subsidiary are as follows:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Orion Petroleum, Inc.

Investments in partnerships and joint ventures are accounted for by recording the company's proportionate share of the assets, liabilities, income and expenses of each of its affiliated oil and gas entities.

(b) Oil and gas properties:

Oil and gas properties are accounted for using the full cost method of accounting. Under this method, all acquisition, exploration and development costs are capitalized as incurred. Gains or losses on the disposition of oil and gas properties are recognized only when such dispositions involve significant reserves. Substantially all oil and gas costs incurred during the year ended December 31, 1980 were property acquisition costs.

Depreciation, depletion and amortization will be computed using the unit-of-production method based on total estimated proved reserves. There was no depreciation, depletion or amortization expense for the year ended December 31, 1980 because there was no production.

(c) Furniture and equipment:

Depreciation of furniture and equipment is provided by the straight-line method over the estimated useful lives of three to eight years.

(d) Management fees:

The company receives management fees from affiliated partnerships and joint ventures as reimbursement for general and administrative expenses incurred in organizing and managing the partnerships and joint ventures. These management fees are recognized as income as the related general and administrative expenses are incurred.

(e) Translation of foreign currency:

The financial statements of the United States subsidiary have been translated into Canadian dollars using current rates for current assets and liabilities, rates in effect at the date of the transaction for other assets, and average rates for the period for revenue and expense items. Unrealized foreign exchange gains have been included in other income.

(f) Income taxes:

No recognition is given in the accounts to the possible future income tax reductions which may be realized through the deduction in determining taxable income in future years of investment tax credits and losses available for carryforward. The reductions in income taxes resulting from the application of such deductions will be accounted for in the years in which the tax reductions are realized.

(g) Comparative figures:

Certain 1979 comparative figures have been reclassified to conform with 1980 presentation.

3. Related party transactions:

Management fees are earned from affiliated partnerships and joint ventures.

During the year, pursuant to the company's employee share purchase plan, two officers, who are also directors, of the company each were advanced $87,500 for the purpose of acquiring preferred shares of the company. These loans were repaid in 1981.

During the year, the company paid commissions of $148,375 to a company controlled by a director of the company in connection with the issue of common shares.

During the year, the company issued 500,000 warrants to directors and senior officers for a cash consideration of $5,000 (note 5).

4. Investments:

During the year, the shares which represented the company's investment in Almark Resources Ltd., were distributed to the shareholders (note 5).

In 1979, the gain on disposal of investments included a gain of $219,695 on disposal of shares of Westgrowth Petroleum Ltd. and a provision for loss of $84,470 on the planned disposal of shares of Almark Resources Ltd. An additional loss of $192,135 was incurred on the disposal of the shares in 1980, of which $92,135 related to the write-off of advances to Almark Resources Ltd.

5. Capital stock:

(a) Authorized and issued capital stock:

Authorized capital stock is as follows:

(i) unlimited number of common shares,

(ii) 100,000 preferred shares without nominal or par value.

The preferred shares are non-voting and carry a cumulative annual dividend entitlement of $1.00 per share. These shares are redeemable after January 1, 1982 and are convertible into common shares on the basis of 20 common shares for each preferred share.

A summary of capital stock transactions during the year is as follows:

Common Shares	Issued	Amount
Balance, beginning of year	1,718,771	$2,246,898
Reduction in stated value of shares	—	(1,630,000)
Shares issued	1,035,000	2,787,500
Shares converted	190,000	95,000
Warrants issued for cash	—	7,000
Balance, end of year	2,943,771	$3,506,398

Preferred Shares	Issued	Amount
Balance, beginning of year	—	$ —
Shares issued	100,000	1,000,000
Shares converted	(9,500)	(95,000)
Balance, end of year	90,500	$ 905,000

(b) Reduction in stated value of common shares:

During the year the shareholders of the company voted to reduce the stated value of the common shares by $1,330,000 being the amount by which capital exceeded the net realizable value of the assets. This amount was applied as a reduction of the value of common shares. The deficit of the company was also reduced by $1,330,000.

The company obtained approval from its shareholders in meetings held in 1979 and 1980 to a plan of reorganization wherein its investment in shares of Almark Resources Ltd. were distributed to the shareholders of the company as a reduction in capital in the amount of $300,000 on the basis of one share of Almark Resources Ltd. for every two shares of the company held by the shareholders. This amount was applied against the value of common shares.

(c) Shares issued:

During the year, the company issued 1,035,000 additional common shares and 100,000 preferred shares for a cash consideration of $2,787,500 and $1,000,000 respectively.

Costs incurred in connection with the issue of common shares amounted to $280,749. Of this amount, $161,309 was applied against the balance in contributed surplus and the remainder was charged to the deficit.

(d) Preferred shares converted:

During the year, 9,500 preferred shares were converted into 190,000 common shares.

(e) Warrants issued:

During the year, the company issued 807,500 warrants. Of these warrants, 700,000 were issued for a cash consideration of $7,000 and entitle the holders to subscribe for one common share of the company at $0.50 per share on or before December 31, 1984. The remaining 107,500 warrants were attached to an issue of additional common shares and entitle the holder to subscribe for one common share of the company at $6.00 per share on or before December 31, 1981.

As of December 31, 1980 none of these warrants had been exercised.

(f) Employee stock option plan:

During the year, the company established an employee stock option plan whereby up to 5% of the outstanding shares of a particular class of shares may be set aside for issuance. During the year, options were granted on 15,000 common shares at $2.25 per share exercisable at various dates to 1985.

6. Income taxes:

The company has loss carryforwards which are available to offset future income for tax purposes in both Canada and the United States. The approximate amounts and expiry dates of the loss carryforwards are as follows:

Expiry Date	Canada	United States
1984	$ 28,000	
1985	460,000	
1987		U.S.44,000
1988		U.S.66,000

Investment tax credit carryforwards available to offset future income for tax purposes in the United States approximate U.S. $2,300 and expire in 1987 and 1988.

7. Lease commitments:

The company leases office space under noncancellable operating leases with original or remaining terms of one year or more. The remaining minimum annual rental commitments are approximately as follows:

1981	U.S. $ 39,000
1982	49,000
1983	49,000
1984	49,000
1985	49,000
1986	28,000
	U.S. $263,000

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Orion Petroleum Ltd. (formerly Orion Petroleums Company Ltd.) as at December 31, 1980 and the consoldiated statements of loss and deficit, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

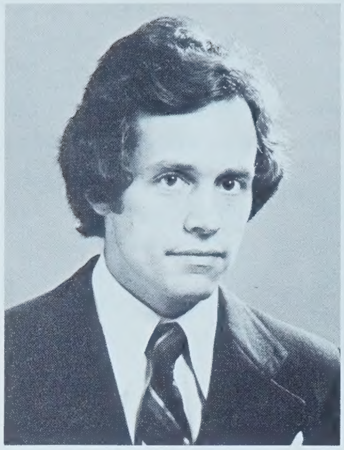
In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The figures for 1979, included for comparative purposes, are based on the financial statements of that year which were reported on by other chartered accountants.

Toronto, Canada
April 16, 1981

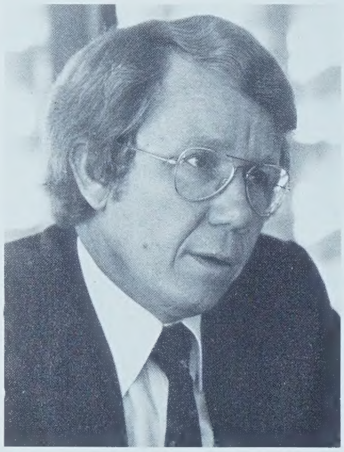
Peat, Marwick, Mitchell & Co.
Chartered Accountants

John Roberts Davidson, Q.C.,
Director

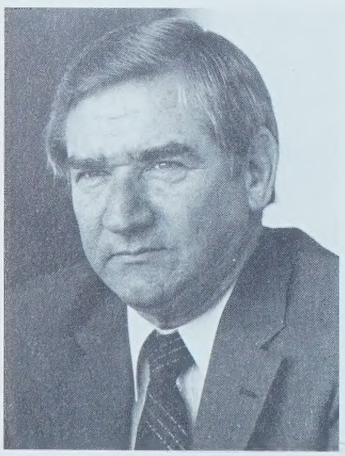


David William Drinkwater,
Secretary

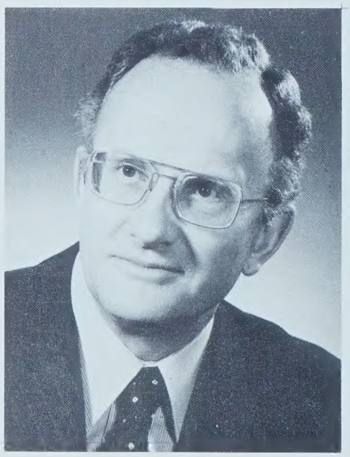
Lloyd Lamont Gordon,
Director



Peter Reynolds Vig,
Director, Chairman and Chief Executive Officer, Treasurer



Jack Landis Woods,
Director, President and Chief Operating Officer



John Robertson Yarnell,
Director

Corporate Data

Directors

John Roberts Davidson, Q.C.
Regina, Saskatchewan (Canada)
Lawyer, J. R. Davidson, Q.C.

Lloyd Lamont Gordon
Toronto, Ontario (Canada)
Chairman, Gordon Lloyd-Price Investments, Ltd.

Peter Reynolds Vig
Dallas, Texas (U.S.A.)
Chairman and Chief Executive Officer Orion Petroleum Ltd.

Jack Landis Woods
Dallas, Texas (U.S.A.)
President and Chief Operating Officer Orion Petroleum Ltd.

John Robertson Yarnell
Toronto, Ontario (Canada)
President, Yarnell Companies Limited

Officers

Peter Reynolds Vig
Chairman and Chief Executive Officer, Treasurer

Jack Landis Woods
President and Chief Operating Officer

David William Drinkwater
Secretary

Audit Committee

John Roberts Yarnell
Chairman

Peter Reynolds Vig

Lloyd Lamont Gordon

Offices

Head Office

Suite 604
11 Adelaide Street West
Toronto, Ontario
M5H 1L9
(416) 364-8107

Executive and Operating Office

510 Expressway Tower
6116 N. Central Expressway
Dallas, Texas 75206
(214) 363-0101

Exploration Office

Suite 1600
City National Bank Tower
Oklahoma City, Oklahoma 73102

Divisions and Subsidiaries

Orion Petroleum, Inc.

Directors and Officers

Peter Reynolds Vig
Dallas, Texas (U.S.A.)
Director
Chairman and Chief Executive Officer,
Treasurer

Jack Landis Woods
Dallas, Texas (U.S.A.)
Director
President and Chief Operating Officer

Michael D. Young
Dallas, Texas (U.S.A.)
Director
Vice-President and Secretary

Thomas W. Welch
Dallas, Texas (U.S.A.)
Controller and Assistant Secretary

Bankers

Bank of Montreal
Toronto, Ontario

First National Bank in Dallas
Dallas, Texas

Registrar & Transfer Agents

Montreal Trust Company
Toronto, Regina and
Calgary

Legal Counsel

Osler Hoskin & Harcourt
Toronto, Ontario

Burnet Duckworth & Palmer
Calgary, Alberta

Winstead, McGuire, Sechrest
& Trimble
Dallas, Texas

Auditors

Peat Marwick Mitchell & Co.
Toronto, Ontario
Dallas, Texas

Stock Exchange

Orion common shares
are traded on the Alberta
Stock Exchange.
Trading symbol: ORN-C (Canada)
ORN-Z (U.S.)

Annual Meeting

The Annual Meeting will be held Thursday, June 11, 1981 at 4:30 in the Tudor Room at the National Club, 303 Bay Street, Toronto, Ontario. Reception to follow in the New Lounge.

Orion Petroleum's name is derived from the constellation "Orion the Hunter", and thus symbolizes the Company's quest for oil and gas. The constellation, located at the equator east of the constellation Taurus, is represented on astrology charts by the figure of a hunter with belt and sword.